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SIPDIS

DEPARTMENT FOR NEA/ARP AMACDONALD
DOC FOR TYLER HOFFMAN, PASS TO USTR FOR JASON BUNTIN

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TAGS: [EAID](#) [ECON](#) [ENRG](#) [EPET](#) [PGOV](#) [RU](#) [YM](#)
SUBJECT: YEMEN: OIL MINISTER (OVERLY?) OPTIMISTIC ON
RESERVES, REFINERIES, FDI

REF: A. SANAA 83
[B](#). 08 SANAA 1461
[C](#). 08 SANAA 1923

Classified By: Ambassador Stephen A. Seche for reasons 1.4(b) and (d).

[1](#). (C) SUMMARY: The Ambassador met with the Minister of Oil and Minerals, Ameer Salem al-Aidaroos, on February 7. The Minister predicted that new discoveries, the eventual return of higher oil prices, and the start of natural gas exports would resolve the Republic of Yemen Government,s (ROYG's) budget predicament (REF A). Any reductions in the ROYG's expensive diesel and gasoline subsidy program would have to wait until after the April 2009 parliamentary elections. The Minister,s estimates of future oil production levels are probably overly optimistic and are based on an unlikely best-case scenario. END SUMMARY.

DIMINISHING RESERVES: WHAT DIMINISHING RESERVES?

[2](#). (C) Minister Aidaroos politely dismissed concerns about Yemen's diminishing crude oil reserves, claiming the country was still a "virgin" in terms of unexplored oil concession blocks. He pointed to Block 18, covering the Mar'ib/al-Jawf area, 60% of which remains unexplored, as capable of producing oil for an additional 20 years. Production in Block 10, covering the Shabwah governorate and jointly operated by U.S. Occidental Petroleum and Total S.A., could increase from 40,000 barrels per day (BPD) to 60,000 BPD, the Minister claimed. (Note: Unofficial estimates put the last year of Yemen's oil exports at anywhere between 2012 and 2050, although all agree that production rates will continue to fall. End Note.) Blocks 10, 14, and 18 remained the major ones, but dozens of others are unexplored for lack of qualified investors, he claimed.

[3](#). (C) Yemen's main challenge is not the security situation nor rapidly decreasing rates of production, but rather the ROYG's inability to attract major oil companies, according to the Minister. The exploration of untapped offshore and mainland blocks, combined with the eventual return of high oil prices, would ensure Yemen's future as a stable energy exporter. The Minister hopes that the process by which the ROYG negotiates Production-Sharing Agreements (PSA's) with oil companies could be streamlined to no longer require full parliamentary approval at each step. Sounding even more upbeat, the Minister said that he is in talks with Exxon Mobil, BP, and Russian TMK, and that Exxon in particular is interested in coming to Yemen. The major oil companies' main hesitancy is not security but rather a lack of available

data, the Minister said. (Note: According to the government-run oil company managing Block 18 in Mar'ib, the 3D seismic surveys necessary to make additional exploration attractive to outside investors can cost upwards of USD 20,000 per square kilometer, a process that has thus far proved prohibitively expensive for Yemen on a large scale. End Note.)

INFRASTRUCTURE SECURITY

¶4. (C) The Minister said that recent pipeline attacks in Mar,ib and Jawf were the result of a lack of educational and vocational opportunities. Local residents use the attacks as a way of getting the ROYG,s attention. They wanted jobs in the energy sector, but were unskilled. The Ministry is moving its vocational training institute, which provides short courses in drilling and maintenance, from Sana,a to Mar,ib to better target aggrieved tribesmen and give them a stake in the success of Yemen,s energy sector, he said. (Note: Post, partnering with the Germans and the Dutch, committed USD 1 million to a youth vocational center in Mar,ib in 2008, to be operated by the Saleh Foundation. Construction of the facility is complete but programs have not yet begun. End Note.)

REDUCING SUBSIDIES: NOW IS NOT THE TIME

¶5. (C) The Minister said that diesel and gasoline subsidies, which cost the ROYG USD 3.5 billion in 2008, could be

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eliminated only "at the right time" and would be maintained for political reasons, despite the budget crisis (REF B). "Even thinking about reducing the subsidies before the elections" is impossible, he said. He dismissed a Ministry of Planning and International Cooperation plan to phase out subsidies over six months as unfeasible and suggested that what was needed was more time, more brainstorming, and a Parliament that would share the responsibility for any subsidy cuts.

REFINERY AMBITIONS

¶6. (C) The Minister suggested that upgrading the aging Aden Refinery could significantly increase its current capacity of 70,000 BPD and reduce Yemen,s dependence on refined oil imports from the U.S., Oman, and Saudi Arabia. The real opportunity, however, lay in constructing a new heavy oil refinery, which he estimated would require a USD 3 billion capital investment. Pointing to a ROYG-commissioned Foster Wheeler feasibility study, the Minister said Yemen could serve as a regional refinery for the Indian, Pakistani, and East African markets.

YLNG ON TRACK

¶7. (C) The Minister, echoing other official estimates, said that the Yemen Liquefied Natural Gas Company (YLNG) is on track to process the first tranche of Mar'ib-origin natural gas in early April, with the first shipment leaving Belhaf port in early June (REF C). The Minister said government revenues from LNG exports would be negligible for the first four years, but would amount to USD 1 billion annually by the end of 2014. Successful YLNG export operations would be a significant boost to Yemen,s image in the world, the Minister and the Ambassador agreed.

¶8. (C) According to the Minister, YLNG is following recommendations by a British firm to divide security into three "sectors": (1) inside Belhaf; (2) guard posts outside; and (3) coastal defense responsibilities shared by the Yemen Navy and the Yemen Coast Guard (YCG). YLNG plans to purchase

four new vessels for the Navy and/or YCG to use for Belhaf patrols. (Note: The Minister left unclear which force was the intended recipient of the new vessels. End Note.)

COMMENT

19. (C) The Oil Minister,s prediction of decades of remaining government oil revenues is probably overly optimistic and is based on a best-case-scenario involving new capital inflows, major new discoveries, improved security, and a sharp increase in the global price of oil. The Minister,s desire to attract major companies such as Exxon and BP is at odds with recent demands placed by his Ministry on companies already operating in Yemen (will be reported septel): the removal of expatriate security personnel from field facilities, mandated increases in the percentage of Yemeni employees, and delays and denials of entry visas for expatriate engineers. If implemented, the Minister,s commitment to reforming the PSA negotiation process, however, could improve Yemen's energy investment climate.
END COMMENT.

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